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ABSTRACT

During the past 10 years, consumers have experienced a substantial growth in credit and an unprecedented increase in the rate of inflation. As increases in credit usage continue to outpace increases in real income and as savings rates decline, consumers are increasingly likely to suffer financial problems and are increasingly in need of money management skills. Data from a 1977 study of the characteristics of individuals who file for bankruptcy and from a 1984 study of nonbusiness bankruptcy in Texas offer valuable insight into the types of individuals likely to experience serious financial problems and the areas that need to be addressed in high school courses dealing with money management and credit usage skills. Such courses should stress the following: the fact that it is the average-income, white male between the ages of 30 and 40 who is most likely to file for bankruptcy; the importance of developing a personal budget and keeping personal financial records; the need to view families as minibusinesses; the importance of savings accounts and health insurance; the necessity of evaluating the cost of items in relation to their value; the effects of inflation on money management; and the necessity of adjusting consumption to offset job- and inflation-related changes in income. Students should be exposed to information about debt-load capacity, alternative sources of credit, and the importance of communicating with creditors when debts cannot be paid on time. (MN)

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CONSUMER ISSUES: CREDIT USAGE, MONEY MANAGEMENT, AND BANKRUPTCY

Judy L. Allen

Economic problems exist at all income levels. In the mid-1970s the Family Service Association of America (Gordon & Lee, 1977) cited the principal financial problem of families as over-indebtedness. Many consumers are like children; they cannot resist the pressure to buy and frequently use credit to pay for purchases. Gorden and Lee (1977), authors of Economics for Consumers, have stated that some consumers are credit addicts. Aggressive sales peoples and advertising slogans such as "No Money Down" and "Only $5 per Week" cause these credit addicts to buy and buy without considering total price, credit cost, and debt load. They have so little self restraint that they succumb to credit purchases until seriously in debt.

During the past 10 years consumers have experienced a substanial growth in credit and an unprecedented increase in the rate of inflation. Overall, credit usage grew 18% in 1985 and 11% in 1986 ("Tax-reform bill", February 7, 1987). Over the past two years, consumer savings withdrawals have exceeded new deposits by over $8.3 billion ("Savings and Loan Drain Continues", February, 7, 1987). In the third quarter of 1986, consumers were saving 2.9% of disposable income as compared to 5% at the start of the year (Pemar, November 10, 1986, p. 39). In addition, real income growth during 1986 grew at a rate of 2.8% while consumer spending grew at a rate of 5.7%

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(Penmar, November 10, 1986, p. 38). These factors have made it more difficult to manage income. One significant result has been an increase in the number of bankruptcies filed. In 1984, 485,724 nonbusiness bankruptcies cases were filed. This represents a drop of 9.3% from the all time high of 535,597 cases filed in 1983.

To effectively teach money management in the high school, an examination of credit use today and a profile of the typical person in financial trouble is needed. If credit patterns and candidates for bankruptcy are understood, recommendations can be made concerning curriculum content for money management.

TRENDS IN CREDIT USAGE

"Buy now and pay later" has become a way of life for many Americans. Credit card usage is as American as apple pie. Jerry Welsh of American Express states that the use of plastic has become "a life-style support system" (Ericgelman, Raine, Thomas & Anderson, July 8, 1985, p. 52). Credit grantors are encouraging the use of credit cards by "dangling" more credit cards before consumers. Substantial lines of credit which were once offered almost exclusively to corporations are now being offered to individuals. (Greenwald, July 15, 1985, p. 46). Last year Sears, with already 60 million credit cards in circulation, launched an extensive promotion for its Discover cards. The goal is to distribute 22 million of these new cards (Ericgelman, et al., July 8, 1985). Retailers are also enticing present cardholders with a "premium card" such as Gold and even Platium American Express cards which carry higher credit limits (Ericgelman, et al., July 8, 1985).

Many consumers have become "addicted to credit and like other addicts, they don't seem to care about the cost of a fix." (Ericgelman, et al., July 8, 1985, p. 52). Overall, interest rates on loans have decreased since 1982 for all areas except credit cards (Tapscott, August, 1985, p. 13). In fact, the real cost of borrowing on credit cards has increased. Currently interest rates on revolving credit stands at an average of 18-19% (Tapscott, August, 1985). The rate has soared from 4% to 16% when the interest charged minus inflation is computed (McNatt, December, 1985, p. 187).

The extensive use of credit is further evidenced by the fact that a greater percentage of consumer's income is committed to debt repayment. American's love affair with credit has resulted in total household debt equalling 81% of after-tax income, up from 75% in 1984. This represents a record (McNatt, December, 1985, p. 190). Consumer installment debt as a percentage of disposable income reached a record 19.4% in 1986 (Pemar, November 10, 1986, p. 39).

With the increase in consumer debt, retailers are experiencing an increase in late payments and debt write-offs. Joske's of San Antonio, a department store, has seen an increase of 50% in "slow pay", accounts over 60 days past due, over the past year and a half (Pauly, King, Donovan & Gordon, December 8, 1986, p. 64). Citicorp, wrote off $700 million in bad debts in the first 9 months of 1986 which represents an 80% increase over a year ago. (Pemar, November 10, 86,p. 38).

What does all this total:

Credit usage up

Savings rate down

Income up slightly

"Late pay" up

Bankruptcy filing up

PROFILE OF A BANKRUPT CONSUMER

Bankruptcy is the discharge of one's debt by legal procedure provided for in the Federal Bankruptcy Act. Bankruptcies may be either business of nonbusiness. Nonbusiness cases are those filed by an individual or a husband and wife. In 1948, the first year during which bankruptcy records were kept, there were 18,510 bankruptcy cases filed in the United States. Traditionally, the majority (85-90%) of the cases filed are nonbusiness.

A study completed in 1977 by the researcher included interviews with Texas bankruptcy judges. Conclusions indicated the following characteristics of individuals in financial trouble.

1. The typical Texas bankrupt was described by the judges as an Anglo, married, thirty to forty years old, with a family of four to six members, and with a high school diploma.

2. The judges perceived that the major factors causing the filings of bankruptcy were medical expenses, divorce, and/or family problems.

3. The average bankrupt was characterized by the judges as having less-than-average knowledge concerning money management.

In 1984, the writer undertook a study of nonbusiness bankruptcy in Texas in order to gain information about debt distressed households so that meaningful recommendations could be made concerning content and curriculum design in the area of money management. The study involved collecting data from nonbusiness bankruptcy petitions closed during the years 1966-1984. Important findings follow.

1. Nonbuiness bankruptcy petitions were most often filed by either married couples (46.8%) or males (35.5%).

2. The bankruptcy petitioners usually did not keep financial records.

3. The mobility rate of the sample was quite high (84% has moved in the last 6 years).

4. The majority of the bankrupts held white-collar jobs. (46.7%)

5. The bankrupt had a median income of $18,509 from occupation.

6. In 90% of the cases, the petition examined was the first bankruptcy filing for the petitioners.

7. The mean amount of unsecured debts totaled $52,620 and secured debts equaled $34,931. However, there were an average of 22 unsecured debts as compared to an average of 4 secured debts.

8. The average number of debts per debtor was 29.

9. The average bankrupt owed four times his average salary. The largest debts owed by the petioners were to Banks ($15,422) and Individuals ($14,418).

The two studies, interviews with Texas bankruptcy judges and the examination of bankruptcy petitions, indicate that the typical Texas bankrupt is a married middle-class Anglo male who is less than 40 years of age and who has a family of four to six mimbers. His salary is average, and he is more mobile than the general population.

While the Texas bankrupt has a high school diploma, he apparently has little knowledge of money management including budgeting, recordkeeping and credit usage. Evidently, he has no concept of the debt-load capacity of the family.

Marital tensions and divorce appears to be high among bankrupts. Filing for bankruptcy is precipitated by his marital situation coupled with a heavy debt load, made heavier by unexpected medical expenses.

RECOMMENDATIONS FOR CURRICULUM PLANNING

The current trends in credit use and the above study indicate that consumers in financial trouble lack knowledge of proper money management skills and credit usage. Positive methods of teaching a money management unit should include the following--

1. Making high school students aware of who the typical bankrupt is and why he became a bankrupt. Realizing that he could be a neighbor or even himself in the future should increase interest in money management.

2. Presenting budgeting as a guide for spending income with emphasis on simple and easy record keeping. Students should not have to be mathematicians to keep household records, and record keeping should not require the accounting of every penny spent. Counting dollars instead of pennies should be stressed.

3. Viewing the famiy as a mini-business. Financial methods used by some individuals would ruin many businesses.

4. Stressing the importance of a savings account as an emergency fund.

5. Pointing out the necessity of health insurance.

6. Evaluating the cost of items in relation to value and the difference in wants and needs. Using the concept of trade-offs, "if I buy this, I cannot buy that."

7. Adjusting consumption of the family to offset change in income caused by job and/or inflation.

8. Understanding the effect inflation has on money management.

In addition the money management unit should strive to develop the following competencies--

1. Using credit wisely, which includes reading and understanding contracts and interest rates.

2. Understanding the debt-load capacity of households.

3. Recognizing and using alternative sources of credit.

4. Communicating with creditors when debts cannot be paid on time.

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